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BEFORE THE ARIZONA CORPORATION COMMISSION

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BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
CHINO MEADOWS II WATER COMPANY
FOR A RATE INCREASE.

DOCKET NO. W-02370A-10-0519

**STAFF'S NOTICE OF FILING
SUPPLEMENTAL SURREBUTTAL
TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Supplemental Surrebittal Testimony of Crystal S. Brown in the above-referenced matter.

RESPECTFULLY SUBMITTED this 29th day of September, 2011.

Charles H. Hains
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

**Original and thirteen (13) copies of
the foregoing filed this 29th day of
September, 2011, with:**

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**Copy of the foregoing mailed this
29th day of September, 2011, to:**

Paul D. Levie, President
Matthew Lauterbach
CHINO MEADOWS II WATER CO.
2465 Shane Drive
Prescott, Arizona 86305

Arizona Corporation Commission

DOCKETED

SEP 29 2011

DOCKETED BY

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

BOB STUMP

Commissioner

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Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF)
CHINO MEADOWS II WATER COMPANY, INC.)
FOR A RATE INCREASE)
_____)

DOCKET NO. W-02370A-10-0519

SUPPLEMENTAL

SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 29, 2011

TABLE OF CONTENTS

	<u>Page</u>
Introduction.....	1
Purpose of Supplemental Surrebuttal Testimony	1
Summary of Recommended Revenues	2
Rate Base	3
Rate Base Adjustment No. 1 – Advances In Aid of Construction (“AIAC”).....	3
Rate Base Adjustment Nos. 2 and 3 – Contributions In Aid of Construction (“CIAC”) and Amortization of CIAC	4
Rate Base Adjustment No. 5 - Cash Working Capital.....	4
Rate Base Adjustment No. 6 - Post-Test Year (“PTY”) Plant.....	5
Operating Income	6
Operating Income Adjustment No. 1 – Employee Salary and Wage Expense	6
Allocate \$19,563 in Employee Salary and Wage Expense to Regulated Affiliate	6
Remove \$10,400 Pro Forma Salary and Wage Increase.....	8
Operating Income Adjustment No. 8 – Rate Case Expense	9
Operating Income Adjustment No. 11 – Payroll Taxes.....	10
Operating Income Adjustment No. 12 – Depreciation Expense	10
Operating Income Adjustment No. 13 – Income Taxes.....	11
Operating Income Adjustment No. 14 – Interest on Customer Deposits.....	12

SUPPLEMENTAL SURREBUTTAL SCHEDULES

Revenue Requirement.....	CSB-1
Gross Revenue Conversion Factor.....	CSB-2
Rate Base – Original Cost.....	CSB-3
Summary of Rate Base Adjustments	CSB-4
Rate Base Adjustment No. 1 – AIAC	CSB-5
Rate Base Adjustment No. 2 – CIAC	CSB-6
Rate Base Adjustment No. 3 – Amortization of CIAC.....	CSB-7
Rate Base Adjustment No. 4 – Customer Deposits	CSB-8
Rate Base Adjustment No. 5 – Cash Working Capital	CSB-9
Rate Base Adjustment No. 6 – Post-Test Year Plant.....	CSB-10
Operating Income Statement – Test Year and Staff Recommended	CSB-11
Summary of Operating Income Adjustments – Test Year.....	CSB-12
Operating Income Adjustment No. 1 – Salary and Wages, Employees	CSB-13
Operating Income Adjustment No. 2 – Salary and Wages, Officer, Directors, Stockholders.....	CSB-14
Operating Income Adjustment No. 3 – Contract Services Legal.....	CSB-15
Operating Income Adjustment No. 4 – Contract Services Testing.....	CSB-16
Operating Income Adjustment No. 5 – Transportation Expense	CSB-17
Operating Income Adjustment No. 6 – Insurance, General Liability	CSB-18
Operating Income Adjustment No. 7 – System Support.....	CSB-19
Operating Income Adjustment No. 8 – Rate Case Expense	CSB-20

Operating Income Adjustment No. 9 – Miscellaneous Expense	CSB-21
Operating Income Adjustment No. 10 – Property Tax Expense	CSB-22
Operating Income Adjustment No. 11 – Payroll Taxes	CSB-23
Operating Income Adjustment No. 12 – Depreciation on Test Year Plant	CSB-24
Operating Income Adjustment No. 13 – Test Year Income Taxes	CSB-25
Operating Income Adjustment No. 14 – Interest on Customer Deposits	CSB-26
Rate Design	CSB-27
Typical Bill Analysis	CSB-28

ATTACHMENT

Data Request Response CM5.23	A
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EXECUTIVE SUMMARY
CHINO MEADOWS II WATER COMPANY
DOCKET NO. W-02370A-10-0519

Staff recommends a \$9,287 or 2.64 percent revenue decrease from \$351,633 to \$342,346. Staff's recommended revenue would produce an operating income of \$20,272 for a 9.60 percent rate of return on an OCRB of \$211,167, as shown on Supplemental Surrebuttal Schedule CSB-1. Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,280 gallons from \$28.98 to \$27.70, for a decrease of \$1.29 or 4.4 percent.

Staff's Supplemental Surrebuttal testimony discusses the changes made to Staff's direct and surrebuttal testimonies based upon the documentation received from Chino Meadows II Water Company ("Chino Meadows" or "Company") regarding its rebuttal testimony on the following issues:

1. Rate Base
 - a. Advances in Aid of Construction ("AIAC")
 - b. Contributions in Aid of Construction ("CIAC")
 - c. Amortization of CIAC
 - d. Cash Working Capital
 - e. Post Test Year Plant
2. Operating Income
 - a. Salary and Wages, Employees
 - b. Rate Case Expense
 - c. Payroll Taxes
 - d. Depreciation Expense
 - e. Income Tax Expense
 - f. Interest on Customer Deposits

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Crystal S. Brown who filed direct and surrebuttal testimony in this case?

A. Yes.

PURPOSE OF SUPPLEMENTAL SURREBUTTAL TESTIMONY

Q. What is the purpose of your Supplemental Surrebuttal testimony in this proceeding?

A. The purpose of my Supplemental Surrebuttal testimony in this proceeding is to testify on behalf of Staff regarding the additional changes Staff made to its direct testimony and surrebuttal testimony after it received and reviewed the documentation from Chino Meadows II Water Company ("Chino Meadows" or "Company").

Q. Is Staff late-filing its Supplemental Surrebuttal schedules at this time?

A. Yes.

Q. Why is Staff late-filing its Supplemental Surrebuttal schedules?

A. As discussed in Staff's surrebuttal testimony filed on September 19, 2011, the Company's rebuttal testimony raised issues not discussed in its direct testimony and proposed different treatment of some costs.

1 **Q. Did you attempt to address every issue raised by Chino Meadows in its rebuttal**
2 **testimony?**

3 A. No. I limited my discussion to certain issues as outlined below. My silence on any
4 particular issue raised in the Company's rebuttal testimony does not indicate that I agree
5 with the Company's stated rebuttal position on the issue. Rather, where I do not respond,
6 I rely on my direct testimony.

7
8 **Q. What issues will you address?**

9 A. I will address the issues listed below that are discussed in the rebuttal testimony of the
10 Company's witness Mr. Ray Jones.

11 1. Rate Base

- 12 a. Advances in Aid of Construction ("AIAC")
13 b. Contributions in Aid of Construction ("CIAC")
14 c. Amortization of CIAC
15 d. Cash Working Capital
16 e. Post Test Year Plant

17 2. Operating Income

- 18 a. Salary and Wages, Employees
19 b. Rate Case Expense
20 c. Payroll Taxes
21 d. Depreciation Expense
22 e. Income Tax Expense
23 f. Interest on Customer Deposits

24
25 **SUMMARY OF RECOMMENDED REVENUES**

26 **Q. Please summarize Staff's recommended revenue.**

27 A. Staff recommends a \$9,287 or 2.64 percent revenue decrease from \$351,633 to \$342,346.
28 Staff's recommended revenue would produce an operating income of \$20,272 for a 9.60
29 percent rate of return on an OCRB of \$211,167, as shown on Supplemental Surrebuttal
30 Schedule CSB-1. Staff's recommended rates would decrease the typical residential 5/8 x

3/4-inch meter bill with a median usage of 4,280 gallons from \$28.98 to \$27.70, for a decrease of \$1.29 or 4.4 percent.

Q. How does Staff's recommended revenue compare to the recommended revenue in Staff's direct testimony?

A. Staff's recommended revenue has increased by \$12,279, from \$330,067 in its direct testimony to \$342,346 in its Supplemental Surrebuttal testimony due to various adjustments as described below.

RATE BASE

Rate Base Adjustment No. 1 – Advances In Aid of Construction ("AIAC")

Q. Has Staff reviewed the documentation to support the refund payments made on the AIAC that has converted to CIAC discussed in the Company's rebuttal testimony?

A. Yes.

Q. Does Staff agree with the \$11,175 in AIAC proposed by the Company?

A. Yes.

Q. What is Staff's recommendation?

A. Staff recommends decreasing AIAC by \$11,175 as shown on Supplemental Surrebuttal Schedule CSB-5.

Q. How does Staff's recommended AIAC compare to the recommended AIAC in Staff's direct testimony?

A. Staff's recommended AIAC has increased by \$1,455, from \$6,374 in Staff's direct testimony to \$7,829 in its Supplemental Surrebuttal testimony.

1 *Rate Base Adjustment Nos. 2 and 3 – Contributions In Aid of Construction (“CIAC”) and*
2 *Amortization of CIAC*

3 **Q. Has Staff revised its CIAC and the amortization of CIAC recommendations based**
4 **upon documentation received from the Company?**

5 A. Yes. As previously discussed in “Rate Base Adjustment No. 1 – AIAC,” Staff has
6 reviewed the documentation the Company has provided in support of payments made on
7 the AIAC contracts that have converted to CIAC and has made the necessary revisions.

8
9 **Q. What are Staff’s recommendations?**

10 A. Staff recommends increasing CIAC by \$11,175 as shown on Supplemental Surrebuttal
11 Schedule CSB-6. Staff also recommends increasing Amortization of CIAC by \$279 as
12 shown on Supplemental Surrebuttal Schedule CSB-7.

13
14 **Q. How do Staff’s recommendations of CIAC and amortization of CIAC compare to the**
15 **recommended CIAC and amortization of CIAC in Staff’s direct testimony?**

16 A. Staff’s recommended CIAC has decreased by \$1,455, from \$25,439 in Staff’s direct
17 testimony to \$23,984 in its Supplemental Surrebuttal testimony. Also, Staff’s
18 recommended amortization of CIAC has decreased by \$37, from \$2,947 in Staff’s direct
19 testimony to \$2,910 in its Supplemental Surrebuttal testimony

20
21 *Rate Base Adjustment No. 5 - Cash Working Capital*

22 **Q. Did Staff make any adjustments to Cash Working Capital?**

23 A. Yes. Staff’s adjustment reflects Staff’s calculation of the cash working capital based upon
24 Staff’s adjusted test year operating expenses.

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends decreasing cash working capital by \$6,680 as shown on Supplemental
3 Surrebuttal Schedule CSB-9.

4
5 **Q. How does Staff's recommendation of cash working capital compare to the**
6 **recommended cash working capital in Staff's direct testimony?**

7 A. Staff's recommended cash working capital has increased by \$1,316, from \$29,768 in
8 Staff's direct testimony to \$31,084 in its Supplemental Surrebuttal testimony.

9
10 *Rate Base Adjustment No. 6 - Post-Test Year ("PTY") Plant*

11 **Q. Has Staff reviewed the documentation in support of the \$3,500 PTY plant addition**
12 **proposed by the Company in its rebuttal testimony?**

13 A. Yes.

14
15 **Q. Does Staff agree with the Company's proposed PTY plant addition?**

16 A. Yes, as discussed in Staff's surrebuttal testimony, the plant is revenue neutral and was not
17 constructed for growth. Further the cost has been verified through invoices.

18
19 **Q. What is Staff's recommendation?**

20 A. Staff recommends increasing plant in service by \$3,500 as shown on Supplemental
21 Surrebuttal Schedule CSB-10.

22
23 **Q. How does Staff's recommendation of plant in service compare to the recommended**
24 **plant in service in Staff's direct testimony?**

25 A. Staff's recommended plant in service has increased by \$3,500, from \$761,698 in Staff's
26 direct testimony to \$765,198 in its Supplemental Surrebuttal testimony.

1 **OPERATING INCOME**

2 *Operating Income Adjustment No. 1 – Employee Salary and Wage Expense*

3 **Q. Does Staff have any additional information or revisions to its surrebuttal position**
4 **concerning salaries and wages?**

5 A. Yes. Staff has additional information concerning its recommended allocation to Granite
6 Mountain and has changed its position on the salary and wage increases that became
7 effective January 1, 2011. Staff will discuss each separately.

8
9 *Allocate \$19,563 in Employee Salary and Wage Expense to Regulated Affiliate*

10 **Q. What additional information does Staff have regarding its \$19,563 allocation to**
11 **Chino Meadow's affiliate, Granite Mountain?**

12 A. Staff has reviewed the data requests in Granite Mountain's last rate case and found that the
13 owner of Chino Meadows provided Staff with the \$19,563 allocation amount.

14
15 **Q. How did the Company calculate the \$19,563?**

16 A. The amount was 20 percent of total salary and wages according to the response to data
17 request CM5.23¹ (See Attachment A) as follows:

18 CM5.23 Please explain how the salaries allocation of 20 percent was calculated?

19 a. Granite Mountain Water Company, Inc. (GMWC) contractually
20 employed personnel of the Chino Meadows II Water Company, Inc.
21 (CMIIWC) during the test year 2007. Applicants own CMIIWC
22 and operated both companies during the test year and 2008 with the
23 same employees. They were paid by CMIIWC and no
24 reimbursement was made by GMWC. With regards to the Rate
25 Application, we anticipate that in the near future the employees of

¹ Docket Nos. W-02467A-09-0333 and W-02467A-09-0334, Granite Mountain's last rate case.

1 GMWC will be employed and paid 100% of their hourly salaries
2 and wages by the GMWC. **We further anticipate that salaries**
3 **and wages in 2009 and thereafter will be 20% of the prior**
4 **combined costs.** (Emphasis added.)
5

6 **Q. Does Staff have any other recommendations concerning the Granite Mountain**
7 **allocation?**

8 A. Yes.

9 a. Staff recommends that the next rate cases for Chino Meadows and Granite
10 Mountain be filed concurrently in order to properly identify and set allocated
11 costs between the two companies.
12

13 b. Staff recommends that the Company utilize the National Association of
14 Regulatory Utility Commissioners ("NARUC") Guidelines for Cost
15 Allocations and Affiliate Transactions to develop written cost allocation
16 procedures.
17

18 c. Staff recommends that the Company file with Docket Control, as a compliance
19 item in this docket, a copy of its written allocation procedures within 90 days
20 of the effective date of the Decision resulting from this proceeding. At a
21 minimum the procedures should:

- 22 1. Identify each expense to be allocated, i.e., provide a descriptive name.
- 23 2. Identify the basis of the allocation (e.g. customers, rate base, revenue,
24 expenses, four factor, time sheets, etc.)
- 25 3. Show the actual calculation used to make the allocation.
- 26

1 *Remove \$10,400 Pro Forma Salary and Wage Increase*

2 **Q. Has Staff made any other changes to its surrebuttal position regarding employee**
3 **salary and wages?**

4 A. Yes, Staff has reflected the \$7,280 in actual salary and wages that the Company stated
5 went into effect on January 1, 2011.

6
7 **Q. Has Staff requested additional information concerning the \$7,280?**

8 A. Yes, Staff has requested additional information.

9
10 **Q. Is Staff's recommended addition to employee salary and wages subject to true-up**
11 **based upon the documentation provided by the Company?**

12 A. Yes, Staff's adjustment is subject to true-up based upon the documentation provided by
13 the Company.

14
15 **Q. Has Staff allocated a portion of the salary and wage increase to Granite Mountain?**

16 A. Yes, as shown on Supplemental Surrebuttal Schedule CSB-13, lines 20 through 27, Staff
17 has allocated \$1,611 of the \$7,280 increase to Granite Mountain.

18
19 **Q. What is Staff's recommendation concerning the employee salary and wage increase**
20 **adjustment?**

21 A. Staff recommends increasing employee salary and wage expense by an additional \$7,280
22 to reflect actual salary and wage increases that went into effect on January 1, 2011. Staff
23 further recommends allocating \$1,611 to Granite Mountain, for a net increase of \$5,669.

24

1 **Q. How does Staff's recommendation of employee salary and wage expense compare to**
2 **the recommended employee salary and wage expense in Staff's direct testimony?**

3 A. Staff's recommended employee salary and wage expense has increased by \$5,669, from
4 \$95,108 in Staff's direct testimony to \$100,777 in its Supplemental Surrebuttal testimony.
5

6 *Operating Income Adjustment No. 8 – Rate Case Expense*

7 **Q. Did Staff review Chino Meadows' rebuttal testimony concerning rate case expense?**

8 A. Yes, the Company states that it expects to incur rate case expense of at least \$30,000.
9

10 **Q. Has Staff reviewed the documentation to support the rate case expense?**

11 A. Yes.
12

13 **Q. Does Staff agree with the Company's proposal in its rebuttal testimony to normalize**
14 **the rate case expense using four years rather than five years?**

15 A. No, Staff does not. Staff typically normalizes rate case expense using three, four, or five
16 years based upon a company's rate case filing history. Chino Meadows has not filed for a
17 rate increase in approximately fifteen years, therefore Staff continues to recommend five
18 years as the number of years over which rate case expense should be normalized.
19

20 **Q. What is Staff's recommendation?**

21 A. Staff recommends increasing rate case expense by \$5,558 as shown on Supplemental
22 Surrebuttal Schedule CSB-20.

1 **Q. How does Staff's recommendation of rate case expense compare to the recommended**
2 **rate case expense in Staff's direct testimony?**

3 A. Staff's recommended rate case expense has increased by \$4,860, from \$1,140 in Staff's
4 direct testimony to \$6,000 in its Supplemental Surrebuttal testimony.

5
6 *Operating Income Adjustment No. 11 – Payroll Taxes*

7 **Q. Did Staff make any changes to Payroll Taxes?**

8 A. Yes, Staff made two changes. First, Staff reflected the correct payroll tax balance filed by
9 the Company (i.e., \$10,804) rather than the \$22,329 reflected in Staff's direct testimony.
10 Second, Staff has decreased payroll taxes as a result of allocating a portion of these costs
11 to Granite Mountain.

12
13 **Q. What is Staff's recommendation?**

14 A. Staff recommends decreasing payroll taxes by \$1,673 as shown on Supplemental
15 Surrebuttal Schedule CSB-23.

16
17 **Q. How does Staff's recommendation of payroll taxes compare to the recommended**
18 **payroll taxes in Staff's direct testimony?**

19 A. Staff's recommended payroll taxes has decreased by \$11,374, from \$21,117 in Staff's
20 direct testimony to \$9,743 in its Supplemental Surrebuttal testimony.

21
22 *Operating Income Adjustment No. 12 – Depreciation Expense*

23 **Q. Did Staff make any changes to Depreciation Expense?**

24 A. Yes, as previously discussed, Staff made changes to CIAC, amortization of CIAC and
25 plant in service. These changes resulted in a change in depreciation expense. Staff

1 adjusted depreciation expense to reflect application of the Staff recommended
2 depreciation rates.

3
4 **Q. What is Staff's recommendation?**

5 A. Staff recommends increasing depreciation expense by \$14,577 as shown on Supplemental
6 Surrebuttal Schedule CSB-24.

7
8 **Q. How does Staff's recommendation of depreciation expense compare to the**
9 **recommended depreciation expense in Staff's direct testimony?**

10 A. Staff's recommended depreciation expense has increased by \$797, from \$38,912 in Staff's
11 direct testimony to \$39,709 in its Supplemental Surrebuttal testimony.

12
13 *Operating Income Adjustment No. 13 – Income Taxes*

14 **Q. Did Staff make any adjustment to the income tax expense?**

15 A. Yes. Staff's adjustment reflects the income tax obligation on Staff's adjusted test year
16 taxable income.

17
18 **Q. What is Staff's recommendation?**

19 A. Staff recommends increasing income tax expense by \$7,327 as shown on Supplemental
20 Surrebuttal Schedule CSB-24.

21
22 **Q. How does Staff's recommendation of income tax expense compare to the**
23 **recommended income tax expense in Staff's direct testimony?**

24 A. Staff's recommended income tax expense has decreased by \$2,416, from \$9,698 in Staff's
25 direct testimony to \$7,282 in its Supplemental Surrebuttal testimony.

26

Operating Income Adjustment No. 14 – Interest on Customer Deposits

Q. Did Staff review the documentation supporting interest expense on customer deposits as discussed in Chino Meadows' rebuttal testimony?

A. Yes.

Q. Does Staff agree with the proposed \$680 in interest expense?

A. Yes.

Q. What is Staff's recommendation?

A. Staff recommends increasing interest on customer deposits by \$680 as shown on Supplemental Surrebuttal Schedule CSB-26.

Q. How does Staff's recommendation of interest on customer deposits compare to the recommended interest on customer deposits in Staff's direct testimony?

A. Staff's recommended interest on customer deposits has increased by \$680, from \$0 in Staff's direct testimony to \$680 in its Supplemental Surrebuttal testimony.

Q. Why do Staff's Supplemental Surrebuttal schedules reflect other adjustments that Staff has not discussed in its Supplemental Surrebuttal testimony?

A. Staff has previously discussed those other adjustments in its direct and surrebuttal testimony and they remain unchanged.

Q. Does this conclude Staff's Supplemental Surrebuttal testimony?

A. Yes, it does.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 225,397	\$ 211,167
2	Adjusted Operating Income (Loss) After Income Taxes	\$ (2,278)	\$ 27,524
3	Current Rate of Return (L2 / L1)	-1.01%	13.03%
4	Required Rate of Return	10.81%	9.60%
5	Required Operating Income (L4 * L1) ¹	\$ 82,318 ¹	\$ 20,272
6	Operating Income Deficiency/(Excess) (L5 - L2) ²	\$ 88,912 ²	\$ (7,252)
7	Gross Revenue Conversion Factor	1.36990	1.28063
8	Increase (Decrease) In Gross Revenue (L7 * L6) ³	\$ 84,641 ³	\$ (9,287)
9	Adjusted Test Year Revenue	\$ 351,633	\$ 351,633
10	Proposed Annual Revenue (L8 + L9) ⁴	\$ 436,273 ⁴	\$ 342,346
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	24.07%	-2.64%

Footnotes

¹ The Company's Required Operating Income is not equal to L4 * L1

² Company's Required Operating Income Deficiency is not equal to L5 - L2

³ The Company's Increase In Gross Revenue is not equal to L7 * L6

⁴ The Company's Proposed Annual Revenue is not equal to L8 + L9

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1

Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-11

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.9136%			
5	Subtotal (L3 - L4)	78.0864%			
6	Revenue Conversion Factor (L1 / L5)	1.280633			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	20.9228%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.0772%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	13.9548%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		20.9228%		
<u>Calculation of Effective Property Tax Factor:</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	20.9228%			
20	One Minus Combined Income Tax Rate (L18-L19)	79.0772%			
21	Property Tax Factor (CSB-22, Col B, L24)	1.2530%			
22	Effective Property Tax Factor (L20*L21)		0.9908%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.9136%	
24	Required Operating Income (Schedule CSB-1, Line 5)	\$ 20,272			
25	Adjusted Test Year Operating Income (Loss) (Sch CSB-11, Col C, Line 34)	27,524			
26	Required Increase in Operating Income (L24 - L25)		\$ (7,252)		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 5,364			
28	Income Taxes on Test Year Revenue (Col. [A], L52)	7,282			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		(1,919)		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	\$ 342,346			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (CSB-22, Col B, L19)	\$ 12,071			
36	Property Tax on Test Year Revenue (CSB-22, Col A, L16)	12,187			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		(116)		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ (9,287)		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule CSB-11, Col. [C], Line 4 & Sch. CSB-1, Col. [D] Line 1	\$ 351,633	\$ (9,287)	\$ 342,346	
40	Operating Expenses Excluding Income Taxes	\$ 316,826	\$ (116)	\$ 316,710	
41	Synchronized Interest (L56)	\$ -		\$ -	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 34,806		\$ 25,636	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 2,425		\$ 1,786	
45	Federal Taxable Income (L42 - L44)	\$ 32,381		\$ 23,849	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 4,857		\$ 3,577	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ 4,857		\$ 3,577	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 7,282		\$ 5,364	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			15.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 14	\$ 211,167			
55	Weighted Average Cost of Debt	0.0000%			
56	Synchronized Interest (L45 X L46)	\$ -			

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	ADJ NO.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 761,698	\$ 3,500	6	\$ 765,198
2	Less: Accumulated Depreciation	508,828	-		508,828
3	Net Plant in Service	<u>\$ 252,870</u>	<u>\$ 3,500</u>		<u>\$ 256,370</u>
<u>LESS:</u>					
4	Advances in Aid of Construction (AIAC)	\$ 19,004	\$ (11,175)	1	\$ 7,829
5	Service Line and Meter Advances	\$ 42,208	\$ -		\$ 42,208
6	Contributions in Aid of Construction (CIAC)	\$ 12,809	\$ 11,175	2	\$ 23,984
7	Less: Accumulated Amortization of CIAC	2,631	279	3	2,910
8	Net CIAC	<u>\$ 10,178</u>	<u>10,896</u>		<u>\$ 21,074</u>
9	Total Advances and Contributions	\$ 71,390	\$ (279)		\$ 71,111
10	Customer Deposits	\$ -	\$ 11,330	4	\$ 11,330
11	Accumulated Deferred Income Taxes	\$ -	\$ -		\$ -
<u>ADD:</u>					
12	Cash Working Capital Allowance	\$ 37,764	\$ (6,680)	5	\$ 31,084
13	Materials and Supplies Inventories	\$ 3,024	\$ -		\$ 3,024
14	Prepayments	\$ 3,129	\$ -		\$ 3,129
15	Total Rate Base	<u>\$ 225,397</u>	<u>\$ (14,230)</u>		<u>\$ 211,167</u>

References:

Column [A], Company Schedule B-1, Page 1

Column [B]: Schedule CSB-4

Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	PLANT IN SERVICE	Acct.	No. - I Plant Description	COMPANY		AIAC		CIAC		Amortization of CIAC		Customer Deposits		Cash Working Capital		Post-Test Year Plant		STAFF AS ADJUSTED
				AS FILED	\$	Ref. Sch	CSB-5	Ref. Sch	CSB-6	Ref. Sch	CSB-7	Ref. Sch	CSB-8	Ref. Sch	CSB-9	Ref. Sch	CSB-10	
1	301 Organization			6,843	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	6,843
2	303 Land and Land Rights			15,204		-		-		-		-		-		-		15,204
3	304 Structures and Improvements			44,339		-		-		-		-		-		-		44,339
4	305 Collecting and Impound Reservoirs			4,350		-		-		-		-		-		-		4,350
5	307 Wells and Springs			27,448		-		-		-		-		-		-		27,448
6	309 Supply Mains			1,009		-		-		-		-		-		-		1,009
7	311 Pumping Equipment			46,268		-		-		-		-		-		-		46,268
8	320 Water Treatment Equipment			6,406		-		-		-		-		-		-		6,406
9	330 Distribution Reservoirs and Standpipes			51,684		-		-		-		-		-		-		51,684
10	331 Transmission and Distribution Mains			268,037		-		-		-		-		-		-		268,037
11	333 Services			30,067		-		-		-		-		-		-		30,067
12	334 Meters and Meter Installations			84,857		-		-		-		-		-		-		84,857
13	335 Hydrants			12,042		-		-		-		-		-		-		12,042
14	336 Backflow Prevention Devices			-		-		-		-		-		-		-		-
15	339 Other Plant and Miscellaneous Equipment			16,728		-		-		-		-		-		-		16,728
16	340 Office Furniture and Equipment			9,346		-		-		-		-		-		-		9,346
17	340.1 Computers and Software			-		-		-		-		-		-		3,500		3,500
18	341 Transportation Equipment			88,633		-		-		-		-		-		-		88,633
19	343 Tools, Shop, and Garage Equipment			949		-		-		-		-		-		-		949
20	345 Power Operated Equipment			25,405		-		-		-		-		-		-		25,405
21	346 Communication Equipment			22,084		-		-		-		-		-		-		22,084
22	347 Miscellaneous Equipment			-		-		-		-		-		-		-		-
23	Rounding			-		-		-		-		-		-		-		-
24	Total Plant in Service			\$ 761,698	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	765,198
25	Less: Accumulated Depreciation			\$ 508,828	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	508,828
26	Net Plant in Service			\$ 252,870	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	256,370
27																		
28	LESS:																	
29	Advances in Aid of Construction (AIAC)			\$ 19,004	\$	(11,175)	\$	-	\$	-	\$	-	\$	-	\$	-	\$	7,829
30	Meter Deposits - Service Line & Meter Advances			\$ 42,208		-		-		-		-		-		-	\$	42,208
31																		
32	Contributions in Aid of Construction (CIAC)			\$ 12,809		-		11,175		-		-		-		-	\$	23,984
33	Less: Accumulated Amortization of CIAC			\$ 2,631		-		-		279		-		-		-	\$	2,910
34	Net CIAC			\$ 10,178	\$	-	\$	11,175	\$	(279)	\$	-	\$	-	\$	-	\$	21,074
35																		
36	Total Advances and Net Contributions			\$ 71,390	\$	(11,175)	\$	11,175	\$	(279)	\$	-	\$	-	\$	-	\$	71,111
37																		
38	Customer Deposits			\$ -		-		-		-		11,330		-		-	\$	11,330
39	Accumulated Deferred Taxes			\$ -		-		-		-		-		-		-	\$	-
40																		
41	ADD:																	
42	Cash Working Capital Allowance			\$ 37,764		-		-		-		-		(6,680)		-	\$	31,084
43	Materials and Supplies Inventories			\$ 3,024		-		-		-		-		-		-	\$	3,024
44	Prepayments			\$ 3,129		-		-		-		-		-		-	\$	3,129
45	Total Rate Base			\$ 225,397	\$	11,175	\$	(11,175)	\$	279	\$	(11,330)	\$	(6,680)	\$	3,500	\$	211,167

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Surrebuttal Schedule CSB-5

RATE BASE ADJUSTMENT NO. 1 - AIAC

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PER COMPANY	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	AIAC - Main Line Extension Contracts	\$ 19,004	\$ (11,175)	\$ 7,829
2				
3				
4		Contract		
5		Date	Name	Amount
6		6/8/1999	Allen Barras	\$ 1,320
7		9/16/1999	Hoffman	\$ 2,880
			Vivien &	
8		10/28/1999	Sebastien Garote	\$ 1,240
9		12/15/1999	Herb Schuerman	\$ 2,640
10		12/20/1999	Lyle Garrison	\$ 4,550
11				\$ 12,630
12		Less: Refunds on AIAC contracts:		\$ (1,455)
13				\$ 11,175

References:

Column A: Company Schedule B-1 and Company's Response to CSB 1-9C
Column B: Testimony, CSB; Data Request Response CSB 1-9C; Company's rebuttal testimony
Column C: Column [A] + Column [B]

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Surrebuttal Schedule CSB-6

RATE BASE ADJUSTMENT NO. 2 - CIAC

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Gross CIAC	\$ 12,809	\$ 11,175	\$ 23,984

References:

Column A: Company Schedule B-2

Column B: Testimony, CSB; Data Request Response CSB 2.3; Company's rebuttal testimony

Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - AMORTIZATION OF CIAC

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Amortization of CIAC - Per Company	\$ 2,631	\$ -	\$ 2,631
2	Amortization of CIAC - Additions	\$ -	\$ 279	\$ 279
3		\$ 2,631	\$ 279	\$ 2,910
4				
5				
6				
7				
8				
9	Calculation of Amortization of CIAC			
10		CIAC Amortization Rate: 2.50% From Line 23		
11		CIAC: \$ 11,175 From Line 17		
12		Amortization of CIAC (Line 10 x Line 11): \$ 279		
13				
14	Calculation of CIAC Additions			
15		Inadequately Supported Plant Treated as CIAC \$ -		
16		AIAC Converted to CIAC \$ 11,175 From Sch CSB-6		
17		Total CIAC Additions \$ 11,175		
18				
19				
20	Calculation of CIAC Amortization Rate			
21		Amortization Rate Used In Last Rate Case: 5.00%		
22		Multiplied by: 50.00% Half Year Convention		
23		Amortization of CIAC (Line 21 x Line 22): 2.50%		

References:

Column A: Company Schedule B-2
Column B: Testimony, CSB; Company's rebuttal testimony
Column C: Column [A] + Column [B]

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Surrebuttal Schedule CSB-8

RATE BASE ADJUSTMENT NO. 4 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Customer Deposits	\$ -	\$ 11,330	\$ 11,330

References:

Column A: Company Schedule B-2
Column B: Testimony, CSB; Data Request Response CSB 1-10
Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 5 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Cash Working Capital	\$ 37,764	\$ (6,680)	\$ 31,084

Operation & Maintenance *	\$	225,916
Multiplied by	x	1/8
	\$	28,240

Purchased Power and Purchased Water	\$	22,757
Multiplied by	x	1/24
	\$	2,845

Total Cash Working Capital	\$	31,084
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* Less depreciation, taxes, purchased power,
and purchased water.

References:

Column A: Company Schedule B-2
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Surrebuttal Schedule CSB-10

RATE BASE ADJUSTMENT NO. 6 - POST-TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 340.1-Computers and Software	\$ -	\$ 3,500	\$ 3,500

References:

Column A: Company Schedule B-2
Column B: Testimony, CSB; Company's rebuttal testimony
Column C: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<u>REVENUES:</u>							
1	Metered Water Sales	\$ 344,260	\$ -		\$ 344,260	\$ (9,287)	\$ 334,973
2	Water Sales - Unmetered	-	-		-	-	-
3	Other Operating Revenues	7,373	-		7,373	-	7,373
4	Total Revenues	\$ 351,633	\$ -		\$ 351,633	\$ (9,287)	\$ 342,346
<u>EXPENSES:</u>							
7	Salaries and Wages - Employees	\$ 126,312	\$ (25,535)	1	\$ 100,777	\$ -	\$ 100,777
8	Salaries and Wages - Officers, Dir, Stcklhdrs	35,498	(4,879)	2	30,619	-	30,619
9	Purchased Water	100	-		100	-	100
10	Purchased Power	22,657	-		22,657	-	22,657
11	Chemicals	884	-		884	-	884
12	Materials & Supplies & Repairs & Maint	16,148	-		16,148	-	16,148
13	Office Supplies & Expenses	17,050	-		17,050	-	17,050
14	Contractual Services - Engineering	-	-		-	-	-
15	Contractual Services - Accounting	600	-		600	-	600
16	Contractual Services - Legal	3,995	(2,995)	3	1,000	-	1,000
17	Contractual Services - Testing	7,062	(2,296)	4	4,766	-	4,766
18	Contractual Services - Other	9,263	-		9,263	-	9,263
19	Rents	6,000	-		6,000	-	6,000
20	Equipment Rental	246	-		246	-	246
21	Transportation Expenses	15,726	(1,582)	5	14,144	-	14,144
22	Insurance - General Liability	11,848	(3,874)	6	7,974	-	7,974
23	Insurance - Worker's Compensation	2,555	-		2,555	-	2,555
24	Insurance - Other	165	-		165	-	165
25	System Support	4,339	(1,483)	7	2,856	-	2,856
26	Reg. Comm. Exp. - Rate Case	442	5,558	8	6,000	-	6,000
27	Bad Debt Expense	1,356	-		1,356	-	1,356
28	Miscellaneous Expense	4,089	(3,486)	9	603	-	603
29	Licensing & Permits	2,910	-		2,910	-	2,910
30	Tax - Other	6,446	-		6,446	-	6,446
31	Property Taxes	22,329	(10,141)	10	12,187	(116)	12,071
32	Payroll Taxes	10,804	(1,673)	11	9,130	-	9,130
33	Depreciation	25,132	14,577	12	39,709	-	39,709
34		-	680	14	680	-	680
35	Operating Expenses Before Income Taxes	\$ 353,956	\$ (37,809)		\$ 316,826	\$ (116)	\$ 316,710
36	Income Taxes	(45)	7,327	13	7,282	(1,919)	5,364
37	Total Operating Expenses	353,911	(30,482)		324,109	(2,035)	322,074
38							
39	Operating Income (Loss)	\$ (2,278)	\$ 30,482		\$ 27,524	\$ (7,252)	\$ 20,272

References:

Column (A): Company Schedule C-1, Page 2
Column (B): Schedule CSB-12
Column (C): Column (A) + Column (B)
Column (D): Schedules CSB-1 and CSB-2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Salaries & Wages Employees	[C] ADJ #2 Salaries & Wages Officers, Dir, Stock	[D] ADJ #3 Contract Services Legal	[E] ADJ #4 Contract Services Testing	[F] ADJ #5 Transportation Expense	[G] ADJ #6 Insurance, General Liability	[H] ADJ #7 System Support	Subtotal
	<u>REVENUES:</u>									
1	Metered Water Sales	\$ 344,260								\$ 344,260
2	Water Sales - Unmetered	-								-
3	Other Operating Revenues									
4	Total Revenues	\$ 7,373								\$ 7,373
5										
6	<u>OPERATING EXPENSES:</u>									
7	Salaries and Wages - Employees	\$ 126,312	(25,535)							100,777
8	Salaries and Wages - Officers, Dir, Stockhdr:	35,498		(4,879)						30,619
9	Purchased Water	100								100
10	Purchased Power	22,657								22,657
11	Chemicals	884								884
12	Materials & Supplies & Repairs & Maint	16,148								16,148
13	Office Supplies & Expenses	17,050								17,050
14	Contractual Services - Engineering	-								-
15	Contractual Services - Accounting	600								600
16	Contractual Services - Legal	3,995			(2,995)					1,000
17	Contractual Services - Testing	7,062				(2,296)				4,766
18	Contractual Services - Other	9,263								9,263
19	Rents	6,000								6,000
20	Equipment Rental	246								246
21	Transportation Expenses	15,726				(1,582)				14,144
22	Insurance - General Liability	11,848					(3,874)			7,974
23	Insurance - Worker's Compensation	2,555								2,555
24	Insurance - Other	165								165
25	System Support	4,339						(1,483)		2,856
26	Reg. Comm. Exp. - Rate Case	442								442
27	Bad Debt Expense	1,356								1,356
28	Miscellaneous Expense	4,089								4,089
29	Licensing & Permits	2,910								2,910
30	Tax - Other	6,446								6,446
31	Property Taxes	22,329								22,329
32	Payroll Taxes	10,804								10,804
33	Depreciation	25,132								25,132
34	Interest on Customer Deposits	-								-
35	Operating Expenses Before Income Taxes	\$ 353,956	\$ (25,535)	\$ (4,879)	\$ (2,995)	\$ (2,296)	\$ (1,582)	\$ (3,874)	\$ (1,483)	\$ 311,312
36	Income Taxes	\$ (45)								\$ (45)
37	Total Operating Expenses	\$ 353,911	\$ (25,535)	\$ (4,879)	\$ (2,995)	\$ (2,296)	\$ (1,582)	\$ (3,874)	\$ (1,483)	\$ 311,267
38										
39	Operating Income (Loss)	\$ (2,278)	\$ 25,535	\$ 4,879	\$ 2,995	\$ 2,296	\$ 1,582	\$ 3,874	\$ 1,483	\$ 40,365

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR CONTINUED

LINE NO.	DESCRIPTION	[I] ADJ #8	[J] ADJ #9	[K] ADJ #10	[L] ADJ #11	[M] ADJ #12	[N] ADJ #13	[O] ADJ #14	STAFF ADJUSTED
1	REVENUES:								
2	Metered Water Sales	Ref: Sch CSB-20	Ref: Sch CSB-21	Ref: Sch CSB-22	Ref: Sch CSB-23	Ref: Sch CSB-24	Ref: Sch CSB-25	Ref: Sch CSB-26	344,260
3	Water Sales - Unmetered	-	-	-	-	-	-	-	-
4	Other Operating Revenues	-	-	-	-	-	-	-	-
5	Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	7,373
6	OPERATING EXPENSES:								
7	Salaries and Wages - Employees	-	-	-	-	-	-	-	100,777
8	Salaries and Wages - Officers, Dir, StckHdtrs	-	-	-	-	-	-	-	30,619
9	Purchased Water	-	-	-	-	-	-	-	100
10	Purchased Power	-	-	-	-	-	-	-	22,657
11	Chemicals	-	-	-	-	-	-	-	884
12	Materials & Supplies & Repairs & Maint	-	-	-	-	-	-	-	16,148
13	Office Supplies & Expenses	-	-	-	-	-	-	-	17,050
14	Contractual Services - Engineering	-	-	-	-	-	-	-	-
15	Contractual Services - Accounting	-	-	-	-	-	-	-	600
16	Contractual Services - Legal	-	-	-	-	-	-	-	1,000
17	Contractual Services - Testing	-	-	-	-	-	-	-	4,766
18	Contractual Services - Other	-	-	-	-	-	-	-	9,263
19	Rents	-	-	-	-	-	-	-	6,000
20	Equipment Rental	-	-	-	-	-	-	-	246
21	Transportation Expenses	-	-	-	-	-	-	-	14,144
22	Insurance - General Liability	-	-	-	-	-	-	-	7,974
23	Insurance - Worker's Compensation	-	-	-	-	-	-	-	2,555
24	Insurance - Other	-	-	-	-	-	-	-	165
25	System Support	-	-	-	-	-	-	-	2,856
26	Reg. Comm. Exp. - Rate Case	5,558	-	-	-	-	-	-	6,000
27	Bad Debt Expense	-	-	-	-	-	-	-	1,356
28	Miscellaneous Expense	-	(3,486)	-	-	-	-	-	603
29	Licensing & Permits	-	-	-	-	-	-	-	2,910
30	Tax - Other	-	-	-	-	-	-	-	6,446
31	Property Taxes	-	-	(10,141)	-	-	-	-	12,187
32	Payroll Taxes	-	-	-	(1,673)	-	-	-	9,130
33	Depreciation	-	-	-	-	14,577	-	-	39,709
34	Interest on Customer Deposits	-	-	-	-	-	-	680	680
35	Operating Expenses Before Income Taxes	\$ 5,558	\$ (3,486)	\$ (10,141)	\$ (1,673)	\$ 14,577	\$ -	\$ 680	\$ 316,826
36	Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,327	\$ -	\$ 7,282
37	Total Operating Expenses	\$ 5,558	\$ (3,486)	\$ (10,141)	\$ (1,673)	\$ 14,577	\$ 7,327	\$ 680	\$ 324,109
38									
39	Operating Income (Loss)	\$ (5,558)	\$ 3,486	\$ 10,141	\$ 1,673	\$ (14,577)	\$ (7,327)	\$ (680)	\$ 27,524

OPERATING INCOME ADJUSTMENT NO. 1 - SALARY AND WAGES, EMPLOYEES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
----------	-------------	-------------------------	--------------------------	--------------------------

1	Salary & Wages, Employees	\$ 126,312	\$ (25,535)	\$ 100,777
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Salaries & Wages Employees

To remove salaries & wages provided for in Granite Mountain rate case	\$ (19,563)	Docket No. W-02467A-09-0333
To remove \$10,400 salary and wage increase pro forma adjustment	\$ (10,400)	Data Request Response CSB 1-1
To reflect \$1 wage increase that became effective on February 8, 2010	\$ 2,080	Data Request Response CSB 4-4
To annualize \$2 wage increase that occurred on April 1, 2009 (CSB 1-1b)	\$ 1,040	(2,080 hrs / 12) x 3 months x \$2
To reflect salary & wage increase that became effective on January 1, 2011	\$ 7,280	Company's rebuttal p. 10, line 17
To reflect Granite Mtn.'s allocation of increases effective on January 1, 2011	\$ (1,611)	From line 27
To normalize overtime charges	\$ (2,761)	From line 40
To remove bonuses	\$ (1,600)	Per GL acct no. 6601.00
Total	\$ (25,535)	

Calculation of Granite Mtn.'s

Allocation of Salary & Wage Increase

	\$ 19,563	Docket No. W-02467A-09-0333
Divided by	\$ 126,312	Salary and wage per Company
	15.49%	Granite Mountain allocation percentage
Multiplied by	\$ 10,400	(\$2,080+\$1,040+\$7,280) From lines 11, 12, & 13
	\$ 1,611	Salary and wage increase allocated to Granite Mtn

Normalized Overtime Charges

2007	\$ 1,575
2008	\$ 3,798
2009	\$ 6,828
	\$ 12,201
Divided by 3 years	3
Staff's normalized overtime charges	\$ 4,067
Company proposed overtime charges	\$ 6,828
Staff's adjustment	\$ (2,761)

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB; Data Request Response CSB 1-1b, 1-15d, CSB 1-32, CSB 4-4, CSB 4-9, & Sch CRM-3 in Docket No W-02467A-09-0333

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - SALARY AND WAGES, OFFICERS, DIRECTORS, STOCKHOLDERS

LINE NO.	DESCRIPTION	[A]	[B]	[C]		
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED	[D]	[E]
1	Salary & Wages, Officers, Directors, Stockholders	35,498	\$ (4,879)	\$ 30,619		
2						
3						
4						
5						
6						
7						
8	Supervision and management of company personnel				3	12
9	Review of fiduciary responsibilities including accounts payable and accounts receivable				3	12
10	Review payroll				1	4
11	Sign checks for payroll and accounts payable				1	4
12	Meet with Company mgmnt to address concerns, equipment repair and/or water plant facilities				5	20
13	Project management				0	0
14	Acquire regulate and oversee company loans and long-term debts				2	8
15	Ensuring that proper equipment and procedures are in place to adequately supply drinking water				2	8
16	Review & advise Company on manuals such as employee handbook & emergency response manual				0	1
17					17	69
18		\$35,498 / (80 hrs per month x 12 months) = \$35,498 / 960 hrs = \$36.98			x	\$36.98
19						\$2,551.62
20					x 12 months	
21						\$30,619.44

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB; CSB 1-16e, CSB 1-16f, CSB 4-3

Column C: Column [A] + Column [B]

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Surrebuttal Schedule CSB-15

OPERATING INCOME ADJUSTMENT NO. 3 - CONTRACT SERVICES LEGAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contract Services - Legal	\$ 3,995	\$ (2,995)	\$ 1,000
2				
3				
4				
5				
6				
7				
8	To remove costs related to the potential sale of the Company	\$	(3,995)	
9	To provide for a reasonable level of ongoing legal expense	\$	1,000	
10	Staff's adjustment	\$	(2,995)	

Contract Services Legal

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB; Company Data Request Responses to CSB 1-23

Column C: Column [A] + Column [B]

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Surrebuttal Schedule CSB-16

OPERATING INCOME ADJUSTMENT NO. 4 - CONTRACT SERVICES TESTING

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contract Services - Testing	\$ 7,062	\$ (2,296)	\$ 4,766

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - TRANSPORTATION EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Transportation Expense	15,726	\$ (1,582)	\$ 14,144

Transportation Expense			
	Amount Before Allocation	Allocation Percentage	Allocated Amount
Chino Meadows	\$ 15,726.00	0.899383984	\$ 14,143.71
Granite Mountain	\$ 15,726.00	0.100616016	\$ 1,582.29
		1.000000	\$ 15,726.00

Number of Customers by Company			
Source: Chino Meadows, application; Granite Mtn, 2009 Annual Report, p. 12			
	Chino Meadows	Granite Mountain	Total
No. of Customers	876	98	974
No. of Customers Allocation %:	0.89938398	0.100616016	1.00

References:

Column A: Company Schedule C-1 & E-2
Column B: Testimony, CSB; Data Request CSB 1.29
Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6- INSURANCE, GENERAL LIABILITY

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Insurance, General Liability	11,848	\$ (3,874)	\$ 7,974

Transportation Expense				
	Amount Before Allocation	Allocation Percentage	Allocated Amount	
Chino Meadows	\$ 11,848.00	0.673030810	\$ 7,974.07	
Granite Mountain	\$ 11,848.00	0.326969190	\$ 3,873.93	
		1.000000	\$ 11,848.00	

Calculation of Two-Factor Allocation				
	[A]	[B]	[C]	[D]
	Number of Customers	Net Plant	Total (Col A+B)	Allocation % (Col C / 2)
Chino Meadows	0.90	0.4	1.35	0.673030810
Granite Mountain	0.10	0.55	0.65	0.326969190
	1.00000000	1.00000000	2.00000000	1.00000000

Number of Customers by Company				
Source: Chino Meadows, application; Granite Mtn, 2009 Annual Report, p. 12, Ant Lks CSB 4-8				
	Chino Meadows	Granite Mountain	Antelope Lakes	Total
No. of Customers	876	98	-	974
No. of Customers Allocation %:	0.90	0.10	0.00	1.00

Net Plant by Company				
Source: Chino Meadows, Sch CSB-3; Granite Mtn, 2009 Annual Report, p. 12				
	Chino Meadows	Granite Mountain	Antelope Lakes	Total
Net Plant	252,870	313,243	-	566,113
Net Plant Allocation %:	0.4	0.55	0.00	1.0

References:

Column A: Company Schedule C-1 & E-2
Column B: Testimony, CSB; Data Request CSB 1.29
Column C: Column [A] + Column [B]

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Surrebuttal Schedule CSB-19

OPERATING INCOME ADJUSTMENT NO. 7 - SYSTEM SUPPORT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	System Support	\$ 4,339	\$ (1,483)	\$ 2,856

References:

Column A: Company Schedule C-2
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Rate Case Expense	\$	442	\$	5,558	\$	6,000

	Per Company		Difference		Per Staff	
	\$	1,326	\$	28,674	\$	30,000
Divided by		3		2		5
		442		5,558		6,000

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Surrebuttal Schedule CSB-21

OPERATING INCOME ADJUSTMENT NO. 9 - MISCELLANEOUS EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ 4,089	\$ (3,486)	\$ 603

Out of Test Year Expense (Payment on old bank debt) \$ 1,237.00

Gifts	\$ 38.40
Food & Beverages	\$ 1,002.39
Luncheons & Dinners	\$ 758.45
Employee Parties	\$ 449.79
Subtotal	\$ 2,249.03

Total \$ 3,486.03

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB; Data Request CSB 1-18 & 1-29

Column C: Column [A] + Column [B]

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Surrebuttal Schedule CSB-22

OPERATING INCOME ADJUSTMENT NO. 10 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 351,633	\$ 351,633
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	703,265	\$ 703,265
4	Staff Recommended Revenue, Per Schedule CSB-1	351,633	\$ 342,346
5	Subtotal (Line 4 + Line 5)	1,054,898	1,045,611
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	351,633	\$ 348,537
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	703,265	\$ 697,074
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	54,837	\$ 54,837
12	Full Cash Value (Line 9 + Line 10 - Line 11)	648,428	\$ 642,237
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	136,170	\$ 134,870
15	Composite Property Tax Rate	8.9500%	8.9500%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 12,187	\$ -
17	Company Proposed Property Tax	22,329	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (10,141)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 12,071
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 12,187
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ (116)
22	Increase to Property Tax Expense		\$ (116)
23	Increase in Revenue Requirement		(9,287)
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.253000%

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Surrebuttal Schedule CSB-23

OPERATING INCOME ADJUSTMENT NO. 11 - PAYROLL TAXES

LINE NO.	DESCRIPTION	[A]	[B]	[C]	
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED	
1	Total Payroll Taxes	\$ 10,804	\$ -	\$ 10,804	Remove \$1,212 adjustment
2	Payroll Taxes allocated to Granite Mountain	\$ -	\$ (1,673)	\$ (1,673)	
3	Payroll Taxes allocated to Chino Meadows	\$ 10,804	\$ (1,673)	\$ 9,131	
		\$ 10,804	Total payroll taxes		
		15.49%	Granite Mountain allocation percentage		
		\$ 1,673	Amount to be allocated to Granite Mountain		

References:

Column A: Company Schedule C-2
Column B: Testimony, CSB;
Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 12 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable & Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301 Organization	\$ 6,843	\$ 6,843	\$ -	0.00%	\$ -
2	303 Land and Land Rights	15,204	15,204	-	0.00%	-
3	304 Structures and Improvements	44,339	-	44,339	3.33%	1,476
4	305 Collecting and Impound Reservoirs	4,350	-	4,350	2.50%	109
5	307 Wells and Springs	27,448	9,096	18,352	3.33%	611
6	309 Supply Mains	1,009	-	1,009	2.00%	20
7	311 Pumping Equipment	46,268	-	46,268	12.50%	5,783
8	320 Water Treatment Equipment	6,406	-	6,406	3.33%	213
9	330 Distribution Reservoirs and Standpipes	51,684	21,661	30,023	2.22%	667
10	331 Transmission and Distribution Mains	268,037	167,988	100,049	2.00%	2,001
11	333 Services	30,067	7,181	22,886	3.33%	762
12	334 Meters and Meter Installations	84,857	-	84,857	8.33%	7,069
13	335 Hydrants	12,042	-	12,042	2.00%	241
14	336 Backflow Prevention Devices	-	-	-	6.67%	-
15	339 Other Plant and Miscellaneous Equipment	16,728	1,305	15,423	6.67%	1,029
16	340 Office Furniture and Equipment	9,346	-	9,346	6.67%	623
17	340.1 Computers and Software	3,500	-	3,500	20.00%	700
18	341 Transportation Equipment	88,633	-	88,633	20.00%	17,727
19	343 Tools, Shop, and Garage Equipment	949	-	949	5.00%	47
20	345 Power Operated Equipment	25,405	18,377	7,028	5.00%	351
21	346 Communication Equipment	22,084	-	22,084	10.00%	2,208
22	347 Miscellaneous Equipment	-	-	-	10.00%	-
24						
24	Total Plant	\$ 765,198	\$ 225,608	\$ 517,543		\$ 41,638
25						
29						
30						
31	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	8.05%				
32	CIAC: \$	23,984				
33	Amortization of CIAC (Line 32 x Line 33): \$	1,930				
34						
	Depreciation Expense Before Amortization of CIAC: \$	41,638				
	Less Amortization of CIAC: \$	1,930				
	Test Year Depreciation Expense - Staff: \$	39,709				
	Depreciation Expense - Company:	25,132				
	Staff's Total Adjustment: \$	14,577				

References:

Column [A]: Schedule CSB-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 13 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	(A)	(B)
<u>Calculation of Income Tax:</u>		Test Year	
1	Revenue	\$ 351,633	
2	Less: Operating Expenses - Excluding Income Taxes	\$ 316,826	
3	Less: Synchronized Interest (L17)	\$ -	
4	Arizona Taxable Income (L1- L2 - L3)	\$ 34,806	
5	Arizona State Income Tax Rate	6.968%	
6	Arizona Income Tax (L4 x L5)		\$ 2,425
7	Federal Taxable Income (L4 - L6)	\$ 32,381	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 4,857	
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -	
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -	
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -	
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	
13	Total Federal Income Tax		\$ 4,857
14	Combined Federal and State Income Tax (L6 + L13)		\$ 7,282
<u>Calculation of Interest Synchronization:</u>			
15	Rate Base (Schedule CSB-13, Col. (C), Line 16)	\$ 211,167	
16	Weighted Average Cost of Debt	0.00%	
17	Synchronized Interest (L16 x L17)	\$ -	
18	Income Tax - Per Staff	\$ 7,282	
19	Income Tax - Per Company	\$ (45)	
20	Staff Adjustment	\$ 7,327	

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Surrebuttal Schedule CSB-26

OPERATING INCOME ADJUSTMENT NO. 14 - INTEREST ON CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Interest on customer deposits	\$ -	\$ 680	\$ 680

References:

Column A: Company Schedule C-2
Column B: Testimony, CSB;
Column C: Column [A] + Column [B]

RATE DESIGN

Monthly Customer Charge:

	Present Rates	Company Proposed	Staff Recommended
5/8" x 3/4" Meter	\$18.75	\$23.26	\$17.75
3/4" Meter	28.13	34.90	26.63
1" Meter	46.88	58.16	44.38
1 1/2" Meter	93.75	116.32	88.75
2" Meter	150.00	186.11	142.00
3" Meter	N/A	418.74	266.25
4" Meter	N/A	701.62	443.75
6" Meter	N/A	1,395.79	887.50

Gallons Included In Monthly Customer Charge: 1,000 1,000 0

Commodity Charges - Per 1,000 Gallons of Usage

Per 1,000 gallons for all usage \$ 3.12 N/A N/A

In Excess of 1,000 Gallons for All Meter Sizes

0 to 10,000 Gallons	N/A	\$3.52	N/A
10,001 to 20,000 Gallons	N/A	\$3.75	N/A
All Gallons in Excess of 20,000	N/A	\$4.34	N/A
0 to 3,000 Gallons	N/A	N/A	\$2.10
3,001 to 8,000 Gallons	N/A	N/A	\$2.85
All Gallons in Excess of 8,000	N/A	N/A	\$3.80

Service Line and Meter Installation Charges

	Present Rates	Company Proposed			Staff Recommended		
		Services	Meters	Total	Services	Meters	Total
5/8" x 3/4" Meter	\$350.00	\$406.00	\$95.00	\$500.00	\$406.00	\$95.00	\$501.00
3/4" Meter	360.00	413.00	162.00	\$575.00	413.00	162.00	\$575.00
1" Meter	420.00	441.00	209.00	\$650.00	441.00	209.00	\$650.00
1 1/2" Meter	540.00	395.00	321.00	\$716.00	395.00	321.00	\$716.00
2" Meter	660.00	727.00	845.00	\$1,572.00	727.00	845.00	\$1,572.00
3" Meter	N/A	952.00	1,448.00	\$2,400.00	952.00	1,448.00	\$2,400.00
4" Meter	N/A	1,310.00	2,206.00	\$3,516.00	1,310.00	2,206.00	\$3,516.00
6" Meter	N/A	2,160.00	4,756.00	\$6,916.00	2,160.00	4,756.00	\$6,916.00

Service Charges

Establishment	\$15.00	\$25.00	\$25.00
Establishment (After Hours)	30.00	35.00	Eliminate
Reconnection (Delinquent)	22.00	35.00	30.00
Reconnection (Delinquent) After Hours	N/A	45.00	Eliminate
After Hours Charge (Flat Rate)	N/A	N/A	25.00
Meter Test (If Correct)	15.00	35.00	20.00
Deposit	*	*	*
Deposit Interest (Per Year)	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	20.00	20.00
Deferred Payment (Per Month)	1.50%	1.00%	1.50%
Meter Re-Read (If Correct)	12.00	15.00	15.00
Late Fee (Per Month)	N/A	***	1.50%

Monthly Service Charge for Fire Sprinkler

4" or Smaller	N/A	N/A	****
6"	N/A	N/A	****
8"	N/A	N/A	****
10"	N/A	N/A	****
Larger than 10"	N/A	N/A	****

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** 1.50 percent of unpaid balance per month

**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Average Number of Customers: 876

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	5,348	\$32.32	\$38.56	\$6.25	19.3%
Median Usage	4,280	\$28.98	\$34.80	\$5.82	20.1%
<u>Staff Proposed</u>					
Average Usage	5,348	\$32.32	\$30.74	(\$1.57)	-4.9%
Median Usage	4,280	\$28.98	\$27.70	(\$1.29)	-4.4%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$18.75	\$23.26	24.1%	\$17.75	-5.3%
1,000	18.75	23.26	24.1%	19.85	5.9%
2,000	21.87	26.78	22.5%	21.95	0.4%
3,000	24.99	30.30	21.2%	24.05	-3.8%
4,000	28.11	33.82	20.3%	26.90	-4.3%
5,000	31.23	37.34	19.6%	29.75	-4.7%
6,000	34.35	40.86	19.0%	32.60	-5.1%
7,000	37.47	44.38	18.4%	35.45	-5.4%
8,000	40.59	47.90	18.0%	38.30	-5.6%
9,000	43.71	51.42	17.6%	42.10	-3.7%
10,000	46.83	54.94	17.3%	45.90	-2.0%
15,000	62.43	73.69	18.0%	64.90	4.0%
20,000	78.03	92.44	18.5%	83.90	7.5%
25,000	93.63	114.14	21.9%	102.90	9.9%
50,000	171.63	222.64	29.7%	197.90	15.3%
75,000	249.63	331.14	32.7%	292.90	17.3%
100,000	327.63	439.64	34.2%	387.90	18.4%
125,000	405.63	548.14	35.1%	482.90	19.0%
150,000	483.63	656.64	35.8%	577.90	19.5%
175,000	561.63	765.14	36.2%	672.90	19.8%
200,000	639.63	873.64	36.6%	767.90	20.1%

October 19, 2009

Response to Staff's Fifth Set of Data Requests to Granite Mountain Water Company, Inc.

Docket Nos: W-02467A-09-0333 and W-02467A-09-0334

a detailed lead schedule for these invoices as a cover/checklist sheet listing the invoices by date, invoice number and amount.

a. McMMain & Sons Excavation Inc was contracted to complete the water infrastructure for Granite Mountain Water Company, as part of Equestrian Development Inc's Granite Mountain Homesites, Unit 5, Phase 3 "Levie Lane". Attached as (Exhibit CM 5.18) is the invoice from the contracted company in the amount of \$78,655.00.

CM 5.19 Is the \$125,000 line of credit with Chase Bank in the Company's name or in the name of some other individual or entity? Please provide copies of the loan documents.

a. The \$125,000 line of credit with JPMorgan Chase Bank is in the name of Granite Mountain Water Company, Inc. Please see attached (Exhibit CM5.19) for proof.

CM5.20 What is the cost of the new 50,000 gallon water storage tank?

a. Please find attached as (Exhibit CM5.20) the costs associated to the new 50,000 gallon tank and subsequently required retaining wall.

CM 5.21 Please provide invoices to verify the cost of the new water storage tank.

a. Please find attached as (Exhibit CM5.21) the invoices associated to the new 50,000 gallon tank and subsequently required retaining wall.

CM5.22 Please provide the names of the shareholders of the Company.

a. As shown on the original rate application

(<http://images.edocket.azcc.gov/docketpdf/0000100344.pdf> Page 9 of 242) the

shareholders of Granite Mountain Water Company, Inc. are:

Paul D. Levie and Rae Levie

CM5.23 Please explain how the salaries allocation of 20 percent was determined.

a. Granite Mountain Water Company, Inc. (GMWC) contractually employed personnel of the Chino Meadows II Water Company, Inc. (CMIIWC) during the test year of 2007. Applicants own CMIIWC and operated both companies during the test year and 2008 with the same employees. They were paid by CMIIWC and no reimbursement was made by GMWC. With regards to the Rate Application, we anticipate that in the near future the employees of GMWC will be employed and paid 100% of their hourly compensation by the GMWC. We further anticipate that salaries and wages in 2009 and thereafter will be 20% of the prior combined costs.

b. The applicable salary projections were designated as twenty percent by the company president as a sound business and accounting estimate, based on the potential pending sale of Chino Meadows II Water Company, Inc. As advised, "In the past Granite Mountain Water Company and Chino Meadows II Water Company have operated somewhat in conjunction with one another - office and field staff are used to operate both". Overall